

August 1965

THE STORY OF THE EEC CRISIS

25.3.1957: EEC Treaty signed in Rome.

The Treaty provides that the Commission is to conduct its affairs independently and can only be compelled to resign by the European Parliament. It also provides for the proceeds of customs duties to accrue to the Community. This is made subject to special approval by the Parliaments of Member States. The Treaty provides for the creation of one or more agricultural funds (40, 4)

14.1.1962: Successful conclusion of the first EEC "agricultural marathon". Market organizations for cereals, poultry, pigmeat and eggs were approved, and it was laid down in Regulation No. 25 on the financing of the common agricultural policy in the final stage that the Community should be liable for the financial consequences of single prices and of a Community farm policy. It was also agreed that after the end of the transition period the proceeds of levies on imports from non-member countries should accrue directly to the Community, whose budget should consist of these revenues, any other revenues, for example customs duties, and the contributions of the States. The reference to "any other revenues" was included in the regulation mainly at the instance of Germany. In German opinion, the question of other independent revenues for the Community, notably customs revenues, and the questions of a fair distribution of burdens should be settled as and when the levies were definitely handed over to the Community.

During the transition period, national financing responsibilities in the farm sector are being transferred step by step to the Community. During this period the regulation limits the participation of the Community to the subsidizing of net exports. The Community also participates in purchasing operations on the internal market and in the financing of structural alterations made necessary by the common policy. The regulation specifies the exact extent of Community participation only for the first three years, over which it rises from one sixth to three sixths. The financing rules after 1 July 1965 to the end of the transition period are to be worked out by the Council before 30.6.1965.

With regard to the Fund from which the Community refunds are financed, it is laid down that this Fund is to form part of the Community budget. At the outset the Fund is financed on the basis of the breakdown of contributions provided for in the Treaty; in the following years this scale is progressively adjusted; alongside the scale laid down in the Treaty another scale is gradually introduced and this scale is related to the respective quantities of net imports of goods coming under market regulations bought outside the Community.

24.10.1962: The Commission presented a memorandum containing an "Action Programme for the Second Stage". One of the points made in this Action Programme was that customs revenues should accrue to the Community. The Commission announced its intention of making appropriate proposals in the near future.

19.12.1962: In the course of the negotiations with the United Kingdom for accession to the Common Market the Commission submitted to the Governments a proposal for the financing of the common agricultural policy. This was a draft regulation, Article 1 of which read as follows :

"After the expiry of the transition period revenue arising from the application to imports from non-member countries of the duties in the common customs tariff and from agricultural levies shall accrue to the European Economic Community as independent revenue".

Any surplus revenues would be partly reimbursed, and this would help towards a fair distribution of burdens among the Member States. After the breakdown of the negotiations with the United Kingdom the Commission published this proposal in its report to the European Parliament.

June 1963: The European Parliament made proposals to improve the procedure for decisions concerning the Community budget; it recommended that the right of decision over the Community budget should be vested in the Parliament from the time when the Community should possess independent revenue.

16.-23.12.1963:

On the occasion of the adoption of the market regulations for milk and milk products, beef and rice, and in principle fats and oils, the Council turned again to the question of financial liability of the Community in the farm sector. The Dutch delegation recommended that the Council issue a statement advocating a strengthening of the budgetary powers of the European Parliament: reference was made to the need for levies to accrue to the Community, a decision which should be referred to the Parliaments of the Member States for ratification. The Council carried the following in its minutes:

"In a discussion of the workings of the European Agricultural Guidance and Guarantee Fund, the Council emphasized the great importance it attaches to the question of strengthening the budgetary powers of the Parliament. It will deal with this question at its session in February 1964 together with the reports submitted to it on the merger of the Executives and the widening of the Parliament's functions."

5.2.1964: The Council approved three Regulations (17/64, 18/64 and 19/64) and a budgetary Regulation (64/127), that together form the necessary implementing provisions for the application of Financial Regulation No. 25 of 14 January 1962. This means that the Agricultural Fund can begin working retrospectively. In the farming year 64/65 the Fund already repays 3/6 of the national expenditures concerned.

30.9.1964: In its "Initiative 1964" the Commission proposed completion of customs union for farm products by 1 January 1968. For the other products customs union would be fully effective on 1 January 1967.

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1.12.1964: The Council found it impossible, in the discussions on the merger of the Executives, to settle the problem of strengthening the budgetary powers of the Parliament. In a declaration to the Council released for the press the Dutch Foreign Minister said :

"This I can say, that none of my colleagues here must harbour the illusion that the Dutch Parliament would co-operate, without proper guarantees of genuine parliamentary control, in the procedure of Article 201 of the EEC Treaty which is necessary to enable farm levies to be paid to the Community. This will therefore be for 1970 at latest."

15.12.1964: In connection with the introduction of common cereals prices on 1-7.1965 the Council instructed the Commission to lay before it by 1 April 1965 proposals for the financing of the common agricultural policy for 1965/70 and for application of Article 2 of Financing Regulation No. 25.

Article 2 of Regulation No. 25 established the principle that levies on imports from non-member countries accrue to the Community: it also refers to the possible creation of other revenues in accordance with Treaty provisions. According to Article 201, the Commission must lay before the Council proposals for replacing the financial contributions of the Member States by independent Community revenue, particularly by revenue accruing from the common customs tariff when the latter has been definitely introduced. In the discussion which led to this mandate to the Commission, the Netherlands delegate referred, without contradiction from other delegations, to M. Luns' statement of 1 December 1964, and said that strengthening of the budgetary powers of the European Parliament should be regarded as a condition for any Dutch approval of Council decisions creating independent Community revenue.

For cereals, pigmeat, eggs and poultrymeat the Council agreed that the European Agricultural Guidance and Guarantee Fund should bear in full, from 1 July 1967 onwards, the expenditure provided for in Article 3 (1 a-c) of Regulation No. 25 (export subsidies, market support). The Council decides: the financial responsibility of the Community will be extended in a spirit of solidarity between the Member States especially the fruit and vegetable sector (from 1.1.66) to hard wheat (from 1.7.1967) and as soon as possible to tobacco.

16.1.1965: The Commission amended its "Initiative 1964", proposing completion of customs union (for industrial and agricultural products) for 1 July 1967.

2.2.1965: The Second Chamber of the States General in The Hague declared that the forthcoming reorganization of the European Agricultural Guidance and Guarantee Fund could under no circumstances be the occasion of the attribution of independent revenues to the Community pursuant to Article 201 of the EEC Treaty unless powers over the EEC's budgetary procedure were vested in the European Parliament.

25.3.1965: In a report to the European Parliament on the activities of the Councils over the preceding year, the President, M. Couve de Murville, observed :

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"On the question of the merger of the Executives, a number of proposals have been tabled in the Councils by certain delegations. Their aim is to strengthen the role of this assembly in a number of fields, notably in budget matters. Some of these proposals have been accepted. On others unanimous agreement has not been reached. The Councils have decided to continue studying this question. As part of their future work on the amalgamation of the Communities, they will examine with particular attention those aspects of this problem affecting the common agricultural policy."

31.3.1965: The Commission laid its proposals before the Council as scheduled; they covered the following points:

- (a) The financing of the common agricultural policy
 - (i) The length of the transition period for the purposes of Regulation No. 25;
 - (ii) The date at which all obstacles to the movement of agricultural and other products should be removed and the balanced development of the Community;
 - (iii) The financing of the common agricultural policy during the transition period;
 - (iv) Arrangements governing expenditure in the final stage of the Common Market.
- (b) The creation of independent revenue for the Community. Here the Commission proposed, as a corollary to the Council decision that levies should accrue to the Community, that customs revenues should also be handed over to the Community. This was planned for the end of the transition period. In accordance with its "Initiative 1964" and with the Council decisions of 15.12.1964, the Commission had proposed 1.7.1967 as the appropriate date. Under the Commission's proposal all the proceeds of levies and customs duties would accrue to the Community from 1973 onwards. The Commission's staff estimated that the levies would then be yielding \$ 1 700 million. These sums together with other revenues (margarine tax) and ECSC contribution would according to these calculations, produce a total of \$ 2 405 million; of this, just \$ 1 700 million would be needed to cover the probable expenditures of the merged Community, while over \$ 700 million would be refunded to the Member States. If the rate of growth remained as hitherto, the Community's gross national product would then be almost \$ 430 billion (assuming stable prices). Receipts from taxation in the Community would exceed \$ 100 billion. Thus the Community's expenditure would amount to about 0.4% of the gross product and 1.6% of Member States' total receipts from taxation.
- (c) The strengthening of the powers of the European Parliament. In line with recommendations of the Parliament and on the basis of the discussions of the Council on the merger of the Executives, the Commission proposed an arrangement whereby the Council would have full freedom of action to take any budget decision it thought appropriate, on a majority of five members out of the six.

/ \$600 million and
customs duties...

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If, however, the Council and the Commission agreed on changes to the Parliament's proposal, they could be adopted by a smaller majority (four members). If no such majority were reached in the Council, the Parliament's proposals concerning the budget would be deemed approved. In this way the Commission left the final decision on the budget to the Council, but proposed a procedure under which there would have to be a dialogue between the Council and the Parliament concerning the budget. The Commission would remain, as hitherto, an ancillary body and would still have no independent powers to draft a budget. The new arrangement concerning the adoption of the budget was to enter into force when the Community obtained its own revenue.

The Commission's proposals under (b) and (c) could not be approved by the Council alone. In both cases, the assent of the home Parliaments was required.

Together with its proposals the Commission transmitted to the Council a general report on the financing of the common agricultural policy. This report summarized the results obtained since the entry into operation of the EAGGF.

1.5.1965: The President of the EEC Commission explained to the EEC Parliament the EEC's proposals for financing the farm policy. In this connection he stressed that the Community was steadily developing. This was true, too, he added, for relationships between its constitutional components.

"Those who drafted the Treaty itself and those who gave it legal force - i.e. those who ratified it - deliberately included an arrangement for adjustment."... "This does not mean that we can immediately take the final step towards complete federation in the field of budgetary powers for the European Parliament. We are well aware that here too we must move forward step by step".

.5.1965: On the basis of a report from its Budget and Administration Committee (Rapporteur Francis Vals) and after consulting the Agricultural and Political Committees, the European Parliament adopted a resolution on the Commission's proposals for the financing of the agricultural policy. This resolution, in which the Parliament recommended that the budgetary powers of the European Parliament should be built up stage by stage between now and 1972, carried with it a proposed alternative to the text of this part of the Commission's proposals. The Commission was called upon to amend its proposals along the lines suggested by the Parliament.

.5.1965: The Economic and Social Committee rendered an opinion endorsing each of the Commission's three proposals and declaring that they were complementary to one another.

.6.1965: The Council held a preliminary discussion on the Commission's proposals. In view of the doubts expressed by several delegations as to the feasibility of completing a common agricultural market by 1.7.1967, the French delegation declared that France had no objection to a speed-up in work towards this goal, as provided for in the Council's decisions of 15.12.1964. The transition to the single market stage would however only then be possible, the French delegation added, if all the conditions of Regulation No. 25 concerning transition to the final stage were fulfilled. France was therefore all the more willing to postpone the opening of the single market until 31 December 1969.

- 5.1965 : The Second Chamber of the States General in The Hague declared that the European Parliament must be given some say in the adoption of decisions and control over the Community budget. A right of veto, it says, should be vested in the Parliament ; this would mark the beginning of real legislative power for the Parliament.
- 7.6.1965 : President Hallstein informed the European Parliament that the Commission had not yet expressed an opinion on whether its proposals for the financing of the common agricultural policy should be altered in the way suggested by the Parliament in its resolution of 12 May 1965.

"In deciding upon the attitude to adopt, the Commission will take into account all the considerations that were mentioned, in order to arrive at whatever solution will best favour the institutional, political and economic development of the Community."

In the ensuing debate, the President of the Socialist Group, Mme Käthe Strobelt, said that the relationship of mutual confidence between the Commission and the European Parliament would definitely depend on the Commission's final decision on this question.

- 9.6.1965 : The Council of Ministers (Ministers of Agriculture) adopted a timetable for the completion of the common agricultural policy, with the aim of achieving free movement of farm products from 1 July 1967.
- 10.6.1965 : The German Bundestag unanimously declared that only on certain conditions could it recommend the Federal Government to agree to the EEC Commission's proposals on the financing of the common agricultural policy. The conditions were: progress with customs union, commercial policy and fiscal harmonization, and a more far-reaching extension of the budgetary powers of the European Parliament than that proposed by the EEC Commission. The Bundestag called upon the Federal Government to support the European Parliament's proposals of 12 May 1965 in the Council of Ministers.
- 13.30.6.1965 : The Council of Ministers held a full debate on the problems arising in the rest of the transition period with regard to the development of common financial liability. Only a preliminary examination was made of the question of widening the budgetary powers of the European Parliament, from which no conclusion could be drawn as to the final attitudes of the Member States. In the course of the debate it became clear that the members of the Council were disinclined to take final decisions on matters under discussion that concerned liability for financing the common agricultural policy without at the same time discussing the progress necessary in other aspects of the Common Market. In this connection there were signs of a willingness to complete customs union for industrial products by 1 July 1967. The question remained open whether free movement of industrial and agricultural goods also implied transition to the final phase of the Common Market. The Council found that this would have to be decided separately on a later occasion. At the same time several delegations raised other problems concerning for example, fiscal harmonization, commercial policy, and market organizations for sugar, milk, oils and fats, and fruit and vegetables.

With reference to the creation of independent revenues for the Community, all the members of the Council declared themselves in favour of the Community's being financed by its own independent revenues from a date still to be fixed. With the exception of one delegation, who reserved their opinion in view of the current Government crisis, all the members of the Council also approved the Commission's proposal that customs revenue should accrue to the Community, stipulating that the revenues so created should be reasonably proportionate to the Communities' financial needs. At the same time, however, the question was raised whether it would not be more appropriate also to allocate to the Community other revenues unconnected with foreign trade.

In view of the special situation of Italy (Italy's need for agricultural imports had risen very sharply in the last few years, with the result that the yield from levies had greatly increased), the Italian delegation urged that no final decisions be taken but only decisions covering one or two years. Later Italy proposed that progress should be made in stages until 31 December 1969, but in that case the transition from one stage to another should not be automatic.

As it had become apparent as the night wore on that final decisions of the Council could not be reached before 1 July 1965, the Commission made the following proposal, which was supported by several delegations: the Council should break off its discussions for the time being and continue them in the near future, so that something could be decided in July. The Commission would amend its proposals so as to take into account all the factors that had been mentioned by the Council. The situation was too complex for the Commission to work out such proposals in the night of 30 June/1 July.

In the small hours of 1 July the President of the Council, M. Couve de Murville, closed the session, saying that it was impossible to reach agreement on whether the decisions to be taken should apply to the whole of the transition period or only to one or two years, and that it was therefore not possible to continue the discussion.

Afterwards the French Foreign Minister told the Press:

"The Community had undertaken to finish with the financial regulation by 30 June 1965; for the first time, formal commitments have not been honoured. Under the circumstances, we cannot but draw the obvious conclusions."

Asked why the clock had not been stopped, as on 31 December 1961 (transition to the second stage linked with the first agricultural marathon), he said :

"We did not do that, because there was no evidence of any wish to reach agreement."

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- 1-7.1965: At a Press conference in Brussels President Hallstein said that the Council of Ministers had miscalculated the time required. He advocated continuing the discussion, saying that the stage reached in the negotiations did not justify any supposition that agreement was impossible. He recalled the transition to the second stage at the end of 1961. On that occasion the clock had been stopped at the request of the French delegation, so that other questions might also be decided at the same time. A fortnight later everything had been decided in one package.
- 2.7.1965: The French Minister of Information, M. Alain Peyrefitte, stated that France's partners in the Community had set new political and economic conditions which had prevented agreement on common financial responsibility !
- "In such circumstances, the Government has decided to draw the economic, political and legal conclusions from the situation that has just been created in this way".
- 6.7.1965: The acting Permanent Representative of France informed the Secretary-General of the Councils in Brussels that the Permanent Representative of France at the European Communities, M. Jean-Marc Boegner, had been invited to return to Paris. For the time being, the French Government would not take part in the meetings of the EEC Council, nor would it participate in the work of the Committee of Permanent Representatives, in negotiations conducted by the Commission, or in the Committees and Working Parties studying the attainment of the economic union. As it turned out in the course of the month France did, however, take part in a few Committees concerned solely with the implementation of regulations and agreements already adopted, but no formal announcement was made to this effect.
- 8.7.1965: In a speech given at the 1965 CDU/CSU Economic Conference in Düsseldorf, President Hallstein also gave his views on the crisis in the Community. He said :
- "All energies must therefore be concentrated on continuing the negotiations. The cure of the crisis must begin where it broke out. And it is to this end that the Commission's efforts are directed."
- 13.7.1965: The Council of Ministers of the CECA met in Luxembourg without France.
- 12.7.1965: After studying the course of the Council debates in June, the Commission addressed a memorandum to the Council, amending its proposals of 31 March 1965. The changes mainly concerned free movement of goods and financing of the common agricultural policy.

With regard to the realization of the common agricultural policy, the Commission proposed a differentiated procedure by which 31 December 1969 would be envisaged as the date when the Common Market's transition period would expire but it would still be possible for the Council of Ministers to bring this date forward, should it wish to do so in view of the progress made in several sectors. Accordingly, 1 January 1970 was suggested as the date on which the budget of the Community would begin to be financed by its own independent revenues.

With regard to the powers of the European Parliament, the Commission pointed out that the talks on this question had been broken off on 30 June 1965 before the Council had concluded its discussion. The Commission therefore reserved the right to express an opinion on this subject at a later stage of the discussions.

In its memorandum the Commission referred to the need for a balanced development of the Community. It spoke of progress in harmonizing turnover taxes, in commercial policy, and in the development of the Social Fund and of regional policy, without, however, formally linking these questions to the system to be adopted for financing the common agricultural policy.

26-27.7.1965: In the absence of France, the EEC Council of Ministers held a session at which the Commission's memorandum was discussed at length. The Council agreed that the Commission's memorandum need no longer be treated as confidential. Decisions of substance on other matters were not taken at the meeting but were submitted for approval of the member governments by written procedure.

27.7.1965: The French Prime Minister, M. Pompidou, spoke of the EEC crisis in a television programme. He repeated the French demand for the burden of French agricultural export surpluses to be financed within the framework of the common agricultural policy, and spoke of the indissoluble link between the common market for agricultural products and the common market for industrial products. He added:

"What we shall not accept is that the whole of the French economy should be directed from outside without the Government being able to exercise the responsibilities it assumes towards the French people. Common sense warns us and experience proves that we cannot entrust the living standards of the French people, and the destiny of our agriculture and of our industry, to a commission with no political vocation."

28.7.1965: At the traditional press conference at the end of the Council debate of 26-27 July 1965, the President of the Council of Ministers, M. Amintore Fanfani, said that the delegations to the Council were making a serious effort to conclude the necessary arrangements for the further application of the regulation on the financing of the common agricultural policy. The supplementary provisions to be adopted would be applied retrospectively from 1 July 1965, so that nobody would suffer.

28.7.1965: At his press conference, President Hallstein emphasized that the Commission, in formulating its proposals at the end of March, had kept closely to its terms of reference. In reply to a question from a journalist, M. Sicco Mansholt, Vice-President of the Commission, said that there was no contradiction between the formal wishes that the Council had addressed to the Commission and the proposals of the Commission itself. The present attitude of France did, however, conflict with what had been that country's attitude during the preparatory talks in the Council. In its proposals, the Commission had simply followed the decisions that had been adopted by the Council of Ministers prior to 31 March 1965.

- 28.7.1965: Four French farmers' associations informed the French Government that, in view of the Brussels crisis, they did not feel able to take any further part in the Agricultural Committee of the Fifth Plan; unless the common agricultural market were achieved, that Plan would have no basis.
- 29.7.1965: The French farmers' union, the FNSEA (Fédération Nationale des Syndicats d'Exploitation Agricole), called upon the French Government to make known its views on the Commission's memorandum.
- 4.8.1965: The Dutch Foreign Minister, M. Joseph Luns, said in an interview with a German news magazine that Holland would say "no" to any British request to take part in European integration if Britain insisted that integration, the supranational element, should disappear for ever from the political horizon. He then said :
- "If England were a member of the EEC, Holland would then definitely insist that France should also be a member".
- 4.8.1965: The four big French farmers' and farmworkers' associations declared in a joint press communiqué :
- "The new memorandum produced by the Commission on the financing of the common agricultural policy is a good basis for discussion."

(The above summary covers the period up to August 15, 1965).
